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AN EMPIRICAL STUDY ON SAVINGS BEHAVIOUR IN SOME SELECTED MUSLIM COUNTRIES

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This is certify that Bro./~~Sis~~ Abul Khair Mohd Jalaluddin
has written the Master of Economics research paper entitled:

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under my supervision. The relevant comments made on the paper during its presentation have been incorporated in the present version of the paper to my full satisfaction.

I have pleasure in recommending that the graduate committee may approve the paper in partial fulfilment of the requirements for the degree of Master of Economics.

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PART ONE

1. INTRODUCTION:

Savings are important economic factor which have significant relations to economic growth of an economy.[1] Aurther Lewis and other development economists placed a heavy emphasis on savings and capital formation for economic growth.[2] Savings are converted into capital goods which are employed to produce further goods and services to be consumed domestically and traded internationally. Theory of economic growth shows that savings have to be increased

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[1] Adam Smith immensely deliberated on this issue. See, for example, J.J. Spengler,"Adam Smith's Theoy of Economic Growth," Southern Economic Journal no. 4, vol. 25 (April 1959), pp. 379-415; M.S. Khan, "Adam Smith's Theory of Economic Development," Adam Smith: Critical Assessments vol. 3 (1983), pp. 53-57; W.O. Thweatt, "A Diagrammatic Presentation of Adam Smith's Growth Model," Social Research vol. 24 (July 1959), pp. 227-230.

[2] See, for a detailed elaboration on this subject, W. Aurther Lewis, Economic Development with Unlimitted Suplies of Labour (Manchester: Manchester School of Economic Studies, May 1954).

to attain a certain level of economic growth of a given economy.[3]

Savings are an urgent need for the contemporary muslim countries since their level of economic development is low. This phenomenon can be examined through, among other things, the per capita income of muslim countries. Out of those Muslim countries whose income data are available, seventeen are low income countries according to the World Bank country classification based on income level in 1991. The four poorest countries with per capita Gross domestic product (GDP) of less than US$200 (1989 value) are Chad, Bangladesh, Somalia and Tanzania. The other low income Muslim countries have per capita income between US$220 and US$500. These countries are Indonesia, Uganda, Niger, Benin, Sierre Leone, Burkina Faso, Sudan, Pakistan, Mauritania, Nigeria, Afghanistan and Guinea.

There are eleven lower middle income Muslim countries, out of which five countries have per capita

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[3] Harrod-Domar model, among other models, focuses on this subject. See, for a good exposition of this model, Michael P. Todaro, Economic Development in the Third World (London: Longman, 1989), pp. 65-68.

GDP between US$640 and US$980, three countries have around US$1500 and the other three countries having per capita GDP of more than two thousand dollars. Five countries whose per capita income lies between US$2960 and US$5310 are Libya, Gabon, Oman, Iran and Iraq. These five countries have been clssified as the upper middle income group.

There are three Muslim countries which have been grouped into high income cetagory namely, Saudi Arabia, Kuwait and U.A.E.. Their per capita income lies between US$6020 and US$18430. This high level of income is not due to industrial development but rather because of natural resources (mainly petrolium). In other words, this income level does not indicate economic development of these countries.

The above statistics of per capita income shows the need for economic development in muslim countries for which savings, among other things, is a must. It is, therefore, deemed imperative to empirically investigate the present state of savings in muslim countries. Hence, this study is an attempt to investigate the correlation between private savings (PS) and per capita income (PCI); and also PS and interest rates (IRs).